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An Internal, Demand-Side Approach Toward Implementing Strategic Sourcing: Political, Legal, and Economic Considerations

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Preface & Acknowledgements

Welcome to our Tenth Annual Acquisition Research Symposium! We regret that this year it will be a “paper only” event. The double whammy of sequestration and a continuing resolution, with the attendant restrictions on travel and conferences, created too much uncertainty to properly stage the event. We will miss the dialogue with our acquisition colleagues and the opportunity for all our researchers to present their work. However, we intend to simulate the symposium as best we can, and these *Proceedings* present an opportunity for the papers to be published just as if they had been delivered. In any case, we will have a rich store of papers to draw from for next year’s event scheduled for May 14–15, 2014!

Despite these temporary setbacks, our Acquisition Research Program (ARP) here at the Naval Postgraduate School (NPS) continues at a normal pace. Since the ARP’s founding in 2003, over 1,200 original research reports have been added to the acquisition body of knowledge. We continue to add to that library, located online at www.acquisitionresearch.net, at a rate of roughly 140 reports per year. This activity has engaged researchers at over 70 universities and other institutions, greatly enhancing the diversity of thought brought to bear on the business activities of the DoD.

We generate this level of activity in three ways. First, we solicit research topics from academia and other institutions through an annual Broad Agency Announcement, sponsored by the USD(AT&L). Second, we issue an annual internal call for proposals to seek NPS faculty research supporting the interests of our program sponsors. Finally, we serve as a “broker” to market specific research topics identified by our sponsors to NPS graduate students. This three-pronged approach provides for a rich and broad diversity of scholarly rigor mixed with a good blend of practitioner experience in the field of acquisition. We are grateful to those of you who have contributed to our research program in the past and encourage your future participation.

Unfortunately, what will be missing this year is the active participation and networking that has been the hallmark of previous symposia. By purposely limiting attendance to 350 people, we encourage just that. This forum remains unique in its effort to bring scholars and practitioners together around acquisition research that is both relevant in application and rigorous in method. It provides the opportunity to interact with many top DoD acquisition officials and acquisition researchers. We encourage dialogue both in the formal panel sessions and in the many opportunities we make available at meals, breaks, and the day-ending socials. Many of our researchers use these occasions to establish new teaming arrangements for future research work. Despite the fact that we will not be gathered together to reap the above-listed benefits, the ARP will endeavor to stimulate this dialogue through various means throughout the year as we interact with our researchers and DoD officials.

Affordability remains a major focus in the DoD acquisition world and will no doubt get even more attention as the sequestration outcomes unfold. It is a central tenet of the DoD’s Better Buying Power initiatives, which continue to evolve as the DoD finds which of them work and which do not. This suggests that research with a focus on affordability will be of great interest to the DoD leadership in the year to come. Whether you’re a practitioner or scholar, we invite you to participate in that research.

We gratefully acknowledge the ongoing support and leadership of our sponsors, whose foresight and vision have assured the continuing success of the ARP:



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Fully-Burdened Cost of Supply in Self-Sustaining Logistics Networks

Eva Regnier, Jay Simon, Daniel Nussbaum, Aruna Apte, and John Khawam
Naval Postgraduate School

Platform Design for Fleet-Level Efficiency: Application for Air Mobility Command (AMC)

Jung Hoon Choi, Parithi Govindaraju, Navindran Davendralingam, and William A. Crossley
Purdue University

Improving DoD Energy Efficiency: Combining MMOWGLI Social-Media Brainstorming With Lexical Link Analysis (LLA) to Strengthen the Defense Acquisition Process

Ying Zhao, Don Brutzman, and Douglas J. MacKinnon
Naval Postgraduate School

Addressing Counterfeit Parts in the DoD Supply Chain

Jacques S. Gansler, William Lucyshyn, and John Rigilano
University of Maryland

Wave Release Strategies to Improve Service in Order Fulfillment Systems

Erdem Çeven and Kevin Gue
Auburn University

Issues and Challenges in Self-Sustaining Response Supply Chains

Aruna Apte, John Khawam, Eva Regnier, Jay Simon, and Daniel Nussbaum
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Lead Time Demand Modeling in Continuous Review Supply Chain Models

Barry R. Cobb, *Virginia Military Institute*
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Improving Multi-Component Maintenance Acquisition With a Greedy Heuristic Local Algorithm

Sifat Kalam and Kash Barker, *University of Oklahoma*
Jose Emmanuel Ramirez-Marquez, *Stevens Institute of Technology*

An Internal, Demand-Side Approach Toward Implementing Strategic Sourcing:



Political, Legal, and Economic Considerations

John Fallon, *University of Maryland, University College*
Timothy Reed, *Beyond Optimal Strategic Solutions*

Optimizing Causes of Procurement Cost Through Strategic Sourcing: The Impact of Rate, Process, and Demand

Timothy Reed, *Beyond Optimal Strategic Solutions*
Michael E. Knipper, *United States Air Force*
John Fallon, *University of Maryland, University College*



An Internal, Demand-Side Approach Toward Implementing Strategic Sourcing: Political, Legal, and Economic Considerations

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Abstract

A commonly cited criticism of the DoD is inefficiency in its acquisition process that leads to a high potential for waste. The purpose of this study is to explore whether the DoD's institutional setting and related bureaucratic structure prohibit leaders and policymakers from effectively implementing private sector best practices related to strategic sourcing, especially demand management. Demand management requires an organizational mindset supporting the governance of production and consumption within a commodity group. A qualitative, case study research methodology was used to explore whether the DoD's institutional framework permitted the utilization of strategic sourcing processes, such as demand management. Gortner, Mahler, and Nicholson's theoretical framework and related argument that public and private sector organizations differ from each other according to three distinct mediums (legal, economic, and political) was applied. Interview data and document artifacts were fractured and coded, then grouped into categories using a modified grounded theory strategy. Key findings suggest that the DoD's current acquisition structure permits a limited application of demand management and the private sector's key success factors given certain political, legal, and economic modifications.

Research Questions

Despite the many urgings and initiatives for improved acquisition processes and methods, the DoD continually fails to implement acquisition reform measures that would produce the desired change. Specifically, the DoD and its bureaucratic aversion to change is unable to adopt commercial best practices. Regarding its acquisition of commercial goods and services, the private sector best practice of strategic sourcing remains absent from the DoD's standardized acquisition practices despite the fact that the Office of Management and Budget (OMB) mandated its use in May 2005. As such, inefficient and tactical acquisition processes continue to produce wasteful spending practices. This problem negatively influences the American taxpayer, the DoD, and the customers that it supports, most notably the warfighter.



A possible cause of this problem is the outdated structure of the DoD's acquisition system and the procurement function's limited, administrative role in the overall acquisition process. This study investigates commercial best practices, such as strategic sourcing, and the government's limited success in applying them could assist in remedying this problem.

The purpose of this study is to explore whether the DoD's institutional setting and related bureaucratic structure has prohibited it from effectively implementing strategic sourcing practices. This study applies the theory and research asserted by Chubb and Moe (1990) to determine whether the findings—that the institution itself and its outdated bureaucratic processes are the root causes of inadequate performance—also apply to the DoD acquisition system.

In order to pursue why the DoD is unable to implement strategic sourcing practices across its acquisition platform, we propose the following three research questions:

1. To what extent does the DoD acquisition structure limit its ability to practice strategic sourcing?
2. Given certain DoD initiatives, what variables/modifications were instituted that promoted successful strategic sourcing practices?
3. Is it possible to mirror these successful examples and apply them on an enterprise-wide basis across the DoD acquisition platform?

Literature Review

To appreciate the magnitude of the study's research questions, it is first necessary to analyze and detail seminal literature that focuses on bureaucracies and organizational theories, as well as some of the key differences among the public and private sectors as they pertain to these constructs. These two overarching themes each play a significant role in determining whether public sector agencies and departments are successful, or whether they possess the potential to be successful, in adopting private sector practices.

Following this analysis and prior to exploring strategic sourcing articles from academic journals, a thorough examination of successful strategic sourcing practitioners offers insight into lessons learned, critical success factors, and other related details. This portion of the literature review highlights which strategic sourcing practices, traits, and components have proven to work and which may or may not be transferable from the private to the public sector.

Classical Literature

Theorist Herbert Simon (1997) eloquently detailed the importance of organizations in his landmark work *Administrative Behavior*:

Organization is important, first, because it provides the environments that mold and develop personal qualities and habits. Organization is important, second, because it provides those in responsible positions with the means for exercising authority and influence over others. Organization is important, third, because, by structuring communications, it determines that environments of information in which decisions are taken. We cannot understand the inputs or outputs of executives without understanding the organizations in which they work. Their behavior and its effects on others are functions of their organizational situations. (p. 18)

Despite the increasing literature and focus on how bureaucracies are changing, traditional bureaucracies continue to run the federal government and, as such, they should be analyzed and studied to measure their impact on government operations. Assuming that



Simon's (1997) theory that organizations affect the inputs and outputs of those who work within them, ignoring organizations makes any study focusing on government processes and initiatives incomplete.

Simon (1997) asserted a clear distinction between administrators and the economic man. Administrators, according to Simon (1997), *satisfice* rather than maximize, implying that they can make decisions without knowing or ascertaining all the facts (p. 119). Simon supported this theory with decades of management and human behavior observation and research. If one were to accept Simon's assertion that administrators act in a satisficing manner, then administrators can and will make decisions with established rules. Simon (1997) characterized these rules as "relatively simple rules of thumb that do not make impossible demands upon their capacity for thought" (p. 119). Perhaps this characterization best explains the myriad of rules that Wilson (1989) detailed at length that continue to run the American bureaucracy.

Many of the bureaucratic tenants detailed by Weber (1922) and Wilson (1989) continue to dictate the composition and character of modern bureaucracies, including the DoD, which remains the largest department within the executive branch in both budget and population. Academics and practitioners alike have challenged the usefulness and efficiency of traditional bureaucracies over the past century, and these critiques and suggestions warrant consideration in view of the changing demands and expectations placed upon these organizational entities.

Although the claim that Weber (1922) is the founder of bureaucracy lies outside the scope of this research project, it is safe to label him as the first known academic to define bureaucracy's attributes and promote their use. Andreski (1984) asserted that Weber was the first to recognize the inevitable bureaucratization of modern governments and nation states, which is one of the most significant predictions in the field of public administration. Weber (1922) outlined the basic characteristics of a bureaucracy, focusing on strict and ordered rules, hierarchy among employees, written documents that guide the management of the modern office, managers who were recognized experts, and office management who followed general rules, which can be learned (pp. 50–51).

Bureaucracy and rules complement one another. Typical connotations of bureaucracies initially generate images regarding rules and regulations, a concept that Weber (1922), and nearly all theorists who touch on bureaucracy, detailed at length. Wilson (1989) asserted, "The United States relies on rules to control the exercise of judgment to a greater extent than any other industrialized democracy" (p. 342).

The DoD, perhaps more than any other executive department in the United States federal system due to its size and complexity, contains a seemingly infinite set of rules and regulations. For example, the rules that guide the DoD procurement processes are divided into several layers, including the federal acquisition regulations; the DoD FAR supplement; the DoD procedures, guidance, and information; as well as a host of local agency procedures, policies, and regulations. As of July 1, 2010, the FAR and DFARS alone are 2,074 and 954 pages, respectively. These exhaustive, overlapping rules do not include the procurement and acquisition rules put forth by the OMB in the form of directives, policy memos, and circulars, for example. A contracting officer (CO) in the DoD requires several years of both training and on-the-job experience to grasp these rules well enough to be granted a warrant that permits an officer's actions independent of a supervisor. That said, all CO actions over a certain dollar threshold, which vary depending on the action as well as the agency, must still go through a legal review to ensure the proper application of these inherently complicated regulations, further illustrating the multitude of rules and regulations



employed in running the DoD. Although industry has its own review processes, it typically falls far short of the lengthy, bureaucratic process imbedded in DoD agencies.

Regarding the topic of rules and the order that they produce, Weber (1922) focused on three primary tenants: First, regular activities are fixed in such a manner to be labeled as official duties. Second, the authority to give commands is strictly outlined and followed (Weber, 1922, p. 50). Third, only those with the qualifications and authority are employed and are done so in a continuous manner. Whether these primary characteristics of how rules are implemented and sustained remain valid in today's environment warrants serious debate; however, regardless of one's opinion on this particular topic, the fact remains that some degree of these characteristics is evident in today's DoD.

Osborne and Gaebler (1992) focused several publications in the early 1990s on public- and private sector differences in an effort to highlight the need for change and, more broadly, for the public sector to begin adopting private sector practices and processes. Osborne and Gaebler (1992) in *Reinventing of America* stated, "We embrace our rules and red tape to prevent bad things from happening, of course. But those same rules prevent good things from happening. They slow government to a snail's pace" (p. 111). There are certainly official duties in the DoD, and the authority to perform and authorize certain actions are clearly spelled out in a host of policies and regulations. These actions and authorizations are limited to those officials who are granted explicit authority to act on behalf of the DoD. Focusing on the topic of defense acquisition as an example, each defense agency has its own set of rules and policy memorandums that carefully and explicitly outline the authority levels of certain employees and their respective positions. At a higher level, each defense agency and each of the defense services must follow the highly integrated DoD Instruction 5000.02, which is the lengthy guide that details the multitude of approvals, documents, and authority levels that serve to uniformly control the acquisition of major defense acquisition programs. In short, Weber's (1922) intense focus on the rigidity of rules within a bureaucracy is a characteristic that continues to flourish in the DoD.

Wilson (1989), citing Weber as well as his own experiences, supplemented these thoughts on rules with his own assessment regarding the gains and losses produced by the rigid application of rules that Weber promoted. Wilson (1989) asserted that the difficulty lies in

striking a reasonable balance between rules and discretion is an age-old problem for which there is no 'objective' solution At best we can sensitize ourselves to the gains and losses associated with the governance by rule rather than by discretion. (p. 342)

In the world of defense acquisition, the line between rules and discretion is anything but concrete. For example, nearly all the rules have exemptions specifying that government officials can employ their own discretion. However, the constantly changing political realities and pressures frequently determine the practitioner's ability to use such exemptions and related discretion.

Demand-Side Management

Demand-side management involves the use of financial incentives, market mechanisms, education, efficiency measures, or other programs to modify the demand for a product or service (Strengers, 2011). The demand management process attempts to identify specific sources of demand so that procurement organizations can ameliorate the risks associated with sources of demand. Demand management attempts to control when or where demand occurs in order to match it efficiently with available capacity and smooth highs and lows of demand into a more consistent requirement level (Jack & Powers, 2009).



In the DoD, demand often expands to the level of funding allotted for a supply or service. So rather than demand driving funding and procurement, funding drives demand.

Jack and Powers (2009) identified examples that might occur in the health care industry, such as an aging and growing population, the increase in some diseases while others are reduced, demand for new treatments and therapies, insurance allowances for procedures, and the prevalence of managed care.

As we identified previously, organizations are impacted by politics and individual limitations are commonplace. In these circumstances, individuals have differences in preferences as a result of their value systems and bounded rationality. These different preferences impact the sourcing of products and services (Cox, Chicksand, & Ireland, 2005). These differences also serve as major sources of resistance to the adoption of enterprise-wide sourcing strategies.

Public and Private Sector Organizational Structures: A Comparative Analysis

Although organizational theory, similar to studies on management, generally does not differentiate between the public and private sectors, there are common characteristics, traits, and features. The subtle differences that do exist can and do have profound consequences when attempting to implement similar processes and practices. Academics Gortner, Mahler, and Nicholson (1989) clarified this point and published a comprehensive text that focused on the uniqueness of organizational theory as it applies to the public sector. Although these authors admit that the lines that once separated the sectors have somewhat blurred due to increasing public sector laws that uniformly apply to both sectors, as well as outsourcing, the public sector's push toward commercial practices, and so on, they still convincingly argued that the public sector demands its own focus on organizational theory.

Gortner et al. (1989) asserted three fundamental components that separate public agencies from their private counterparts: legal, economic, and political nature and roles. These authors argued that public and private organizations differ “in this most profound way: *It is the business of public bureaus to administer the law.* ... Compliance with private rules and regulations is voluntary: Non-compliance in the public sphere may result in coercion or force” (pp. 19–23).

In their landmark essay “Comparing Public and Private Organizations,” Rainey, Backoff, and Levine (1976) mirrored the thoughts above regarding the unique legal differences between the private and public sectors and the impact that these differences creates. Regarding the constraints of the legal system that applies to the public sector, Rainey et al. (1976) claimed that these constraints limit the public manager's choices as to both entry and withdrawal of certain undertakings (p. 238). In short, the legal environment that guides the public sector frequently undermines its ability to freely choose its undertakings and related practices and processes, a fact that is rarely noted or appreciated by the public it serves.

The economic differences between the public and private sectors can be succinctly summarized by the fact that a private entity is largely motivated by profit whereas a public agency must blend efficiency with political and legal concerns, and mandates, some of which were discussed previously. For example, many of the political embargoes and trade restrictions placed by the United States were instituted due to political concerns, not to enhance profitability.

Although private entities do not operate in a vacuum, they certainly avoid the type of interference and political pressure noted by Gortner et al. (1989). Allison's (1979) landmark



presentation comparing the sectors and highlighting their fundamental differences specifically noted this point. Allison (1979) asserted, “Government managers tend to have relatively short time horizons dictated by political necessities and the political calendar” (p. 29). Allison’s point adds complexity to the position of a public administrator, who must balance political demands within narrow timeframes, a dangerous combination that inevitably creates hurried and frequently inefficient processes. An examination of the practitioner literature will illustrate the key success factors (KSFs) that are inherent in any strategic sourcing program.

Practitioner Literature: Key Success Factors

The overlapping themes regarding what practitioners claimed were necessary ingredients for successful strategic sourcing implementation and what academia is discovering through research are plentiful. We identified a host of repeating suggestions and criteria for a successful strategic sourcing program emerged from the literature. These criteria, or key success factors, can be categorized into the following high-level headings: the overall status of the purchasing function, effective leadership within the organization, the ability of strategic sourcing teams to cross functional areas, and working jointly with suppliers in an integrated fashion in contrast to establishing an arms-length relationship. This final KSF includes developing suppliers in addition to simply working together. The following analysis synthesizes the existing literature’s contribution to these KSFs.

Status of the Purchasing Function

As mentioned by Baldwin et al. (2000), Moore et al. (2002), Laseter (1998), and others, practitioners have publicized the need for purchasing to cease its stereotypical role of serving as an administrative or clerical function. Driedonks, Gevers, and van Weele (2010) stressed this point in their study regarding how to manage the effectiveness of strategic sourcing teams when they asserted, “Although things have changed dramatically over the last decades, the purchasing profession has a history as a clerical function” (p. 109). Driedonks et al. (2010) claimed that the ability of strategic sourcing to create a competitive advantage is what has largely raised the prominence of the purchasing function (p. 109).

Because the DoD has not altered the status of its purchasing function since it attempted to implement strategic sourcing in May 2005, perhaps because it does not have to compete in the marketplace and establish any type of competitive advantage, it would not satisfy this KSF. Johnson (2005), whose memorandum implemented government-wide strategic sourcing in the federal sector, did not establish any type of strategic sourcing organizational structure or make any mention of acquisition process and procedures. In short, Johnson’s OMB memorandum mandated a commercial best practice but maintained the status quo in terms of the existing status and role of the purchasing function.

Kocabasoglu and Suresh (2006) enhanced the notion of increasing the status of purchasing when they asserted that successful strategic sourcing implementation depends on purchasing and supply managers partaking in the organization’s strategic processes (p. 7). The typical DoD framework—whereby requirements are generated and provided to the purchasing function to simply administer an order—falls far shy of the type of strategic, organizational integration that Kocabasoglu and Suresh label as a KSF. Schneider (2011), a professor of contract management at the Defense Acquisition University (DAU), asserted the following thoughts regarding the status of the purchasing function within the DoD:

We may teach the acquisition lifecycle and use of Integrated Product Teams but the reality is that in many DOD organizations, procurement is not engaged until far too late in the acquisition planning process. This means the



value add of the business advisor is minimized and it is no surprise that contracting is seen as more of an administrative paper-pushing function. (Personal communication, March 28, 2011)

Ogden, Rossetti, and Hendrick (2007) confirmed the importance of this KSF, offering that the purchasing literature has identified “status within the organization” as one of the key determinants of purchasing’s strategic influence (p. 4). The DoD’s failure to break through the bureaucratic, stove-piped nature of its acquisition system and purchasing’s continued administrative role will inevitably add to the challenge of implementing strategic sourcing initiatives and practices.

Effective Leadership

Wisma, Schmidt, and Naimi (2006) asserted that significant resources need to be focused on leadership in order to properly manage the inevitable change that accompanies a strategic sourcing initiative (p. 174). Wisma et al. (2006) argued that such an initiative without an effective leader to manage the significant change that stems from executing strategic sourcing practices will surely lead to failure. Although Johnson’s (2005) OMB memorandum directed agencies to implement strategic sourcing was addressed to senior leaders within the executive departments—the chief acquisition officers, chief information officers, and chief financial officers—there was no guidance on how to lead the inevitable change that this initiative would create. Further, the leaders who received this OMB tasking were to do so in a minor, part-time capacity, further emphasizing the weakened approach employed by the OMB in instituting this commercial best practice.

By comparison, the private sector typically hires experts with leadership skills whose sole focus is to drive successful strategic sourcing initiatives. In reviewing the organizational structures and leadership roles of private sector firms that have experienced successful strategic sourcing programs, it turns out that their leaders are focused on the primary mission of ensuring that their programs exceed the established goals and metrics. Klein (2004) included this approach as one of the three key steps to excellence. Klein (2004) cited Prudential as a best-in-class case study in his research and stated how its strategic contracts manager led the needed change (p. 24). This senior-level executive focused on driving effective strategic sourcing practices in the company. This type of focus is not only lacking but is frequently altogether absent in the DoD environment.

The federal government’s approach was to add this challenging initiative to the countless other duties assigned to their senior leaders, and to do so with a flat-lined budget. In this instance, the federal government reverted to the hierarchical structure and tasked the senior-most leaders who delegated down to their subordinates in hopes of some level of progress (Johnson, 2005). Referencing Simon’s (1997) thoughts, the outputs of executives cannot be understood without understanding the organizations in which they work (p. 18). Regarding the implementation of strategic sourcing in the federal sector, the important trait of leadership was handled in the bureaucratic fashion by tasking and delegating in lieu of the commercial approach of hiring dedicated leadership to ensure that the proper level of focus and energy supported the initiative (Johnson, 2005). It is not a failure of leadership but an organizational failure that best explains the outputs of the federal and, more specifically, the DoD leaders. This possibility should be kept in mind moving forward.

Leadership’s impact on strategic sourcing has been studied, albeit only with private sector data. Hult, Ferrell, and Schul (1998) examined the impact of leadership on a set of individual purchase outcomes related to the sourcing process. Hult et al. (1998) studied leadership’s impact on an organization’s purchasing cycle times and relationship commitments, both critical measurement’s in assessing an organization’s success in a



strategic sourcing environment. Although Hult et al. (1998) divided leadership into multiple categories, the underlying hypothesis that leadership impacts purchasing outcomes was confirmed in their study.

This is not to imply that effective leadership alone ensures that strategic sourcing initiatives experience success. For example, when Hawkins, Randall, and Wittmann (2009) researched factors contributing to the use of reverse auctions, a tool frequently used by strategic sourcing teams, they illustrated that leadership was not a contributing factor. Hawkins et al. (2009) revealed that leadership in their study only proved to be marginally significant and negatively related to the use of reverse auctions (p. 65). Although still marginally effective and considered by most to be a critical part of successful strategic sourcing practices, leadership alone does not guarantee positive outcomes from a strategic sourcing perspective.

Cross-Functional Representation

The internal coordination of purchasing with other functions is a KSF that relies heavily on internal communications. Freytag and Mikkelsen (2007) stressed the importance of this KSF, stating that the managerial challenge of managing relationships is critical in implementing strategic sourcing. Freytag and Mikkelsen (2007) asserted, “The key to success is that all parts of an organization cooperate, and that no part of the organization passively or actively shows a reluctant attitude to handling the tasks” (p. 189). Internal communication and managing relationships across the DoD’s vast, stove-piped acquisition system is difficult to effectively execute.

Acquisition is comprised of a handful of job series, although this handful varies from agency to agency. These job series, ranging from contracting officers to program managers to engineers to logisticians, contain their own training, competencies, and skill sets that rarely overlap, thereby exacerbating the limited view and scope of a DoD acquisition official (Defense Acquisition University [DAU], 2010). For example, DAU is responsible for teaching certification courses to the DoD acquisition workforce. The DAU website (2011a) put forward the following clarification: “The Defense Acquisition Workforce Improvement Act required the Department of Defense to establish a process through which persons in the acquisition workforce would be recognized as having achieved professional status” (para. 1).

Each DAU campus is divided up into six departments: contract management, logistics, program management, systems engineering, business, cost, and finance (DAU, 2010). The certification courses provided by the DAU rarely overlap, and the instructors employed to teach them typically teach only within their limited area of expertise. This approach serves only to heighten the stove-piped nature of the DoD acquisition system, making the internal coordination of purchasing with other functions altogether impossible.

Mookherjee (2008) studied the criticality of moving toward a flatter organization as opposed to traditional vertical organizations that typically define government bureaucracies if an organization is to effectively practice strategic sourcing. Mookherjee asserted that companies are therefore moving, and sometimes being forced, away from the classical, vertical structures toward those that are more flexible (p. 72). The current DoD organizational structure and its stove-piped nature violate the tenants of flexibility and horizontal platforms that Mookherjee’s research endorsed.

In a study similar to Mookherjee’s (2008) study, Gopal, Viniak, and Caltagirone (2004) outlined a model to achieve a strategic sourcing that relies heavily on the effective use of cross-functional teams. Gopal et al. (2004) asserted, “The project’s success depends heavily on the team’s formation. Purchasing, logistics, operations, engineering, and finance all need to be represented on the team” (p. 56). Again, considering that the DoD currently



hires, trains, and works according to functional area, each particular function is frequently ignorant regarding the roles and responsibilities of their counterparts in the other functional areas.

Mills (2010), a former program manager in defense-related acquisition and current DAU professor of program management, recently asserted the following list of barriers that limit the DoD's ability to form integrated product teams: lack of empowerment, unclear goals, poor leadership, unreasonable schedule, insufficient resources, and lack of commitment (p. 31). This translates the tasking of a joint cross-functional team into a monumental challenge, at least for the DoD bureaucracy.

This is not to imply that the DoD has not long been warned regarding the need to shift from a functional, narrow focus toward the industry standard of cross-functional teams. For example, Dupray (2005), a contracting officer for the U.S. Navy, detailed the need to transform the DoD's stove-piped approach to acquisition and move from a functional approach toward a joint, strategic approach (p. 8). Despite the OMB policy letters, countless executive reports, and supporting literature from the private sector, the massive bureaucracy that is the DoD requires fundamental, organizational change to truly shift from its existing, single functional area focus, which unfortunately prohibits, or at least limits, strategic sourcing processes.

Buyer–Supplier Relationships

Information sharing and the development of key suppliers are two of Kocabasoglu and Suresh's (2006) KSFs that come close to violating the ethical standards and statutory regulations that guide the federal sector's acquisition system. The DoD acquisition system, from a purchasing perspective, is guided by the federal acquisition regulations, which place the concepts of fairness and competition above these KSFs, regardless of their importance in executing strategic acquisition practices. For example, FAR 3.101-1 offered the following guidance:

Government business shall be conducted in a manner above reproach and, except as authorized by statute or regulation, with complete impartiality and with preferential treatment for none. Transactions relating to the expenditure of public funds require the highest degree of public trust and an impeccable standard of conduct. The general rule is to avoid strictly any conflict of interest or even the appearance of a conflict of interest in Government-contractor relationships. (General Services Administration [GSA], 2011, section 3)

It is easy to decipher why contracting officers are hesitant to establish long-term relationships with suppliers because the FAR clearly articulates that complete impartiality shall guide the DoD acquisition process.

The current bureaucratic structure of the DoD and the lengthy list of regulations that guide it prohibit certain buyer–supplier relationships that serve as common practices in the private sector (GSA, 2011). For example, FAR 15 details how contracting officers are to treat all competing industry partners fairly to ensure equity and justice in the federal contracting process. FAR 15.306(e) specifically stated, "Limits on exchanges. Government personnel involved in the acquisition shall not engage in conduct that favors one offeror over another" (GSA, 2011). When these rules are violated, the losing contractor in a competitive process has the legal right to protest the government's decision.

FAR 33, which covers protests, disputes, and appeals, is dedicated to outlining the processes and procedures afforded to contractors for submitting protests when it suspects



that the government violated the regulations. For example, Northeast Military Sales (NEMS) protested the Defense Commissary Agency's decision to award to another, competing firm. NEMS won the protest and the Defense Commissary Agency had to restart its entire acquisition process because it failed to properly follow the rules regarding the engagement of industry suppliers. In its ruling, the GAO (2011) asserted, "NEMS broadly challenges the agency's technical, past performance, and price evaluations, as well as the adequacy of discussions. We sustain the protest" ("Decision" section, para. 1). The reference to discussions in the GAO decision highlights the government's continued failure to properly engage with industry. This recent case illustrates the complexity involved regarding the DoD's use of this particular KSF.

In line with KSFs that promote successful strategic sourcing implementation, Towers and Song (2010) provided that long-term purchasing arrangements are necessary between buyer and supplier to ensure a strategic relationship that will lead to effective strategic sourcing practices (p. 542). There are a host of bureaucratic hurdles that make this KSF difficult to achieve, including the budgetary system that funds DoD acquisitions, the restrictions regarding the use of multiyear funds, the current administration's intense focus on increasing competition, and so on. For example, the DoD uses various categories of money to fund its acquisitions, all of which have strict time limits regarding when they can be obligated and the purpose that they are used. Operations and maintenance money, for example, must be used within the year that it is provided or it expires. Further, it can only fund contracts for a period of 12 months, further emphasizing the point regarding the difficulty for the DoD to establish long-term relationships with suppliers.

To illustrate the complexity regarding the DoD's ability to establish long-term relationships with suppliers, consider the following DoD guidelines established in the DAU's (2011b) CON 216 Legal Considerations in Contracting course: "Annual appropriations are made for a specified fiscal year and are available for new obligation only during the fiscal year for which made. Routine activities of the federal government are, for the most part, financed by annual appropriations" (p. 206). It is obvious from the literature that the long-term relationships promoted by strategic sourcing experts far exceed the one-year time limit that is typically established in the Appropriation and Authorization Acts.

In the summary of their study, Chan and Chin (2007) claimed that managing and collaborating with suppliers early in the process offers companies a competitive advantage (p. 1407). This competitive advantage escapes the largest buying entity in the world because of its bureaucratic rules that continue to prohibit it from applying commercial best practices.

Although strategic sourcing has yielded enormous savings for industry over the past 20 years, the majority of strategies focus on the interactions with suppliers through contract award. The management of the strategy in the post-award phase has had comparatively little attention paid to it. This is a reflection of contracting's perceived administrative role (Hughes & Wadd, 2012).

KSFs Summary

The four KSFs detailed in the previous sections are all limited when considering the existing institutional structure that guides the DoD acquisition system. Although both scholars and practitioners may argue over which KSF is most critical to an organization that is implementing or practicing strategic sourcing, the overlapping themes were constant. Thawiwinyu and Laptaned (2009) executed a detailed study on the impacts of strategic sourcing on supply chain performance management. In their literature review, they asserted the following as the main elements of strategic sourcing: strategic elevation of the



purchasing function, internal coordination between supplier and purchasing, long-term relationships with suppliers, and supplier involvement in planning and design. Their assessment assists in validating the fact that these elements or KSFs are constant and need to be massaged into the DoD institutional setting if the DoD expects to realize the utilization of strategic sourcing processes.

Thawiwinyu and Laptanet (2009) asserted, “Firms that implement strategic sourcing experience significant improvement in their supply chain performance management, specifically in terms of responsiveness and satisfaction of customer” (p. 20). In an era of budget cuts, multiple war efforts, and overall economic uncertainty, the DoD should focus its efforts mightily on how to properly implement strategic acquisition practices so its customers (the warfighter as well as the taxpayer) can experience increased customer satisfaction, however that might be defined (e.g., increased savings, better service, decreased delivery times, etc.). Further, the potential regarding positive social change associated with the reallocation of financial resources is tremendous serving to heighten the demand for strategic sourcing in the DoD and, more broadly, in the public sector.

Research Methods

Considering the research questions and their exploratory nature, combined with the fact that the academic literature revealed little information on strategic sourcing in the public sector, a case study methodology is the best approach for this study. Recognizing that the literature on strategic sourcing in the public sector is limited illustrates that this truly is an exploratory study. This research effort focuses on the United States Air Force and its Strategic Sourcing Program Management Office (SSPMO), referred to as the Air Force’s Enterprise Sourcing Group (ESG). To properly assess the impact of how the DoD could adjust its existing organizational structure to better promote strategic sourcing practices, a program that has illustrated progress in this realm naturally had to serve as the case study. Additionally, if the research question of whether a modified strategic sourcing program could be applied on an enterprise level within the DoD is to be explored, a program that has illustrated the ability to execute strategic sourcing within the existing regulations had to be selected. The Air Force’s SSPMO readily meets these requirements.

This study utilizes both an archival and documentation review, as well as interviews, in an effort to compile as much data as possible and to ensure a comprehensive, triangulated approach. The archival records and documentation review were analyzed by the Gortner et al. (1989) framework that characterizes public and private sector differences along three distinct mediums: legal, economic, and political (see Table 1). The interviews were conducted along the private sector’s KSFs that emerged in the literature review.



Table 1. Air Force Strategic Sourcing Archival Records and Documentation Mapped to the Gortner et al. (1989) Framework Categories

Air Force archival record or documentation	Gortner et al. (1989) framework (Legal/Economic/Political)
IG5307.104-93 AF Strategic Sourcing and Commodity Council Guide (U.S. Air Force, 2010a)	Legal
Charter for the Air Force Civil Engineering Commodity Council (U.S. Air Force, 2010c)	Legal/Political
Charter for the Air Force: Air Force Medical Service Commodity Council (U.S. Air Force, 2010b)	Legal/Political
Charter for the Air Force Furnishings Commodity Council (U.S. Air Force, 2010d)	Legal/Political
Strategic Sourcing Task Group Final Report Briefing to the Defense Business Board (DBB, 2011)	Legal/Economic/Political
ESG's (2011) Strategic Alignment and Deployment Briefing to the Air Force Materiel Command	Legal/Economic/Political
ESG Strategic Sourcing Briefing to the Air Force Materiel Command (AFMC; Knipper, 2011)	Legal/Economic/Political
State of the ESG/Follow-up to AFMC/CA Briefing to the Air Force Materiel Command (Shofner, 2011)	Legal//Political
ESG Strategic Planning Charters	Legal/Economic/Political

The strength of this study lies in the fact that the methodology aligns with the research questions that are guiding it. The approach to triangulation assures that the research questions are explored and supported by a myriad of viewpoints and data sources, thereby strengthening the data and related analyses.

We conducted a rigorous case study using a single unit of analysis, the United States Air Force SSPMO, with multiple cases, which are the three commodity councils. In this case study we incorporated three data sources, and synchronized the results of the documentation and archival records analyses, executed through the Gortner et al. (1989) organizational framework, with follow-on interviews of the employees running the referenced commodity councils. This comprehensive approach to triangulation, along with the detailed steps to minimize or eliminate the validity threats, ensures that the proposed research questions are pursued with academic rigor.

Research Findings and Impact on DoD Acquisition

The archival records and documentation review clearly provides invaluable insight into this study's research questions. That portion of the study highlighted how the DoD's bureaucratic structure does not limit an agency's ability to launch a strategic sourcing program, which alone validates the usefulness and contributory nature of this research effort. The extent to which it may limit an agency's ability to successfully employ strategic sourcing practices remains somewhat less defined.

In the best of circumstances, demand managers must address a number of challenges that occur when meeting requirements including product over specification,



premature or tardy establishment of specifications, frequent changes in specification, poor or non-existent demand information, fragmentation of spend, maverick buying, agency politics, and the risk-averse nature and culture of the organization (Cox, Chicksand, & Ireland, 2005). Our findings indicate that each of these challenges is exacerbated by the DoD bureaucracy.

Product overspecification occurs when individual users are permitted to define requirements, rather than a team of experts representing the enterprise requirements. Premature establishment of specifications may limit the sourcing team's ability to negotiate a solution with suppliers, or to identify current state-of-the-art or alternative best-value solutions. Changes in specification make the organization susceptible to changes in price from suppliers that may increase total cost. Poor demand information deprives the organization of making informed decisions and puts them at a negotiating disadvantage. Spend that is dispersed to more vendors than necessary increases transaction cost; however, the political environment that DoD buyers work in requires attention with regard to small business vendors. The risk-averse nature of DoD buying organizations is exacerbated by the penalties assessed when an innovative strategy proves unsuccessful.

The ESG's ability to work around the legal, political, and economic differences to continue to push its program forward is a testament that the limitations imposed by the DoD bureaucracy can be overcome or, perhaps more appropriately, circumvented. The ESG was able to modify certain processes and regulations to work around barriers. This seemingly simple achievement highlights the greater impact of applying the ESG's approaches, processes, lessons learned, and achievements toward other DoD agencies and services. Additionally, the idea that an enterprise-wide DoD strategic sourcing program could take root is within the realm of the possible, a thought that traditional bureaucrats would likely dismiss.

The interview data illustrate that the Air Force ESG, operating under the same rigid DoD acquisition structure as its peers, was able to explore and achieve varying degrees of success with respect to the KSFs that emerged in the literature. The research results detailed in this study revealed that the ESG was able to significantly advance the status of the purchasing function as well as the concept of cross-functional representation on the strategic sourcing commodity councils. Although progress was evident in the data, this does not imply that the ESG reached a maturity level equal to its private sector peers. Some of its shortcomings (e.g., bureaucratic processes that result in inefficient reporting structures and limited number of SMEs on the commodity councils) are likely related to the organizational structure and the related limitations that this produces.

The KSFs focusing specifically on effective leadership and engaging suppliers in a collaborative manner have witnessed success to a lesser extent than the aforementioned KSFs. The limited but nonetheless noteworthy ESG successes in these specific KSFs are easier to tie to the DoD's bureaucratic structure. For example, leadership within the DoD is still focused on tactical and narrow-minded approaches that tend to focus on supporting only those initiatives that leaders either own or are at least personally invested in versus the strategic approach of supporting initiatives that benefit the organization. Similarly, the bureaucratic culture and rules surrounding fairness and competition makes the full realization of the final KSF that focuses on supplier collaboration difficult, if not impossible, to witness in the short term.

This research provides a solid baseline for both the ESG and its DoD counterparts to recognize what can be initially achieved, which KSFs are more difficult and may require additional support or changes, and which approaches, measures, and processes have



proven most effective. Although more detailed answers to these questions will only be possible over time, this study has produced significant and worthwhile information that will prove useful to the Air Force and, more broadly, the DoD as it continues to move toward more strategic sourcing and related acquisition practices.

Although the DoD acquisition structure limits its own ability to efficiently establish and promote strategic sourcing processes, it does not block it entirely. ESG employees expressed confidence in the fact that, over time, its program will mature. It has already made significant progress in two years within a bureaucratic structure that has solidified its cultural norms over the past 50 years. This encouraging thought demands additional research, especially in light of the positive social change that will naturally stem from the DoD's ability to realize effective, robust, strategic sourcing practices and programs.

This research effort has produced obvious demands for action from DoD acquisition leadership, related policy leaders, and practitioners alike (e.g., contracting officers and program executive officers). The fact that the ESG was able to effectively initiate a fully functioning strategic sourcing program management office within the boundaries of the same bureaucratic environment that guides and governs its peers mandates that other DoD agencies and Services take the initiative to implement strategic sourcing practices and reap the myriad benefits that it offers.

As a leader in this particular space, the Air Force ESG should meet with its DoD counterparts to review both its successes and failures. It should explore how its peers can and should follow in its footsteps and actively partner with them in establishing similar PMOs at their respective services and agencies. The ESG should also record a baseline for its current position and benchmark it against its goals and private sector peers to determine how much further it can advance its current progress and what it will require to do so. The ESG should map out these next steps for the critical stakeholders and leadership who can and should help it achieve its goals. In lieu of begging for additional leadership support and better cross-functional representation, the ESG should be more proactive in gaining the type of leadership and stakeholder support that will endorse these supportive measures and drive it from the top down. These types of aggressive pursuits pose potential gains that more than justify their endorsement.

Significance of This Study

The purpose of this exploratory case study research effort was to initiate an investigation into whether the DoD's bureaucratic structure limits its ability to practice strategic sourcing. The resulting data illustrate that although the structure may have a limiting effect, it certainly does not prevent implementation and potential success in a number of strategic sourcing processes and areas. The legal, environmental, and political differences between the public and private sectors did not prevent the Air Force's ESG from successfully launching its SSPMO and from achieving initial success stories. This research should ultimately prove valuable for its discoveries that strategic sourcing success is possible within the DoD, that the ESG's success is likely transferable to other DoD services and agencies, and that the KSFs required for success can be implemented and achieved, to some degree, within the DoD's bureaucratic environment.

We are pragmatic enough to stipulate that the bureaucratic and risk-adverse nature of DoD procurement will change little in the near future. As a result, the routinized tasks that are currently repeated with each transaction that procurement organizations conduct will also continue. We propose that strategic sourcing can make a significant contribution in this area by accomplishing those routinized tasks a single time for a group of products or services. Such a strategy will yield significant process cost savings for the enterprise.



Even with these discoveries, this field of research begs for additional studies and more granular, targeted focus areas. For example, the ESG must explore how to better achieve each of the four KSFs within DoD regulations if it seeks to mature its existing SSPMO. Another key area of focus for the ESG should be to better understand how to restructure its acquisition function areas in the hope of doing a better job at achieving the stated KSFs. The ESG's peers should explore and study how they can mirror the ESG's success, improve on the existing lessons learned, and team with the ESG to drive cross-agency and department collaboration.

Examining the broader topic of private sector practices within the federal sector is another area that is ripe for exploration. This strategic sourcing case study could be expanded to examine the topic of commercial best practices within the federal sector and what is (and is not) possible or, perhaps, what is (and is not) warranted or, perhaps, what is (and is not) necessary in these challenging fiscal times.

All considered, the purpose of this study was to launch the necessary investigation of how to apply efficient commercial practices within a seemingly rigid bureaucratic environment. This research is meant to initiate the larger and much more focused, follow-on research that is hopefully waiting to be explored by other scholar-practitioners in the field of public administration.

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